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C O N F I D E N T I A L RABAT 001177

SIPDIS

DEPT FOR NEA/MAG AND EB/ESC

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TAGS: [EPET](#) [PBTS](#) [MO](#) [WS](#)

SUBJECT: POLISARIO SELLING OIL EXPLORATION PERMITS IN  
WESTERN SAHARA

REF: A. RABAT 0658

[B](#). RABAT 1095

Classified By: Economic Counselor Michael Koplovsky, for reasons 1.4 b  
and d.

[1](#)1. (C) Summary: The Polisario "government" of the putative Saharawi Arab Democratic Republic (SADR) has issued a call for bids on oil exploration licenses over the length of the Western Sahara territory, including offshore zones where U.S. firm Kerr McGee has been operating under Moroccan licenses for several years. The SADR has advertised the sale on a highly sophisticated website complete with state-of-the-art geological data and contract licensing documents. The bids are due on October 31, 2005. The 12 offshore blocks being auctioned off by the Polisario cover entirely the block granted by the Government of Morocco to Kerr McGee in 2001 (Ref A). Kerr McGee Morocco general manager John O'Brien (protect) told Econoff on June 7 that his company extended its existing offshore reconnaissance permit with the GOM in April, and is in "wait and see" mode. Deputy Foreign Minister Taieb Fassi-Fihri flagged the call for bids as an example of Polisario provocation in a May 23 meeting with P-5 ambassadors (Ref B). End Summary.

[1](#)2. (C) Kerr McGee's John O'Brien, an oil executive with decades of experience, wistfully noted the site ([www.sadroidlandgas.com](http://www.sadroidlandgas.com)) was "substantially more sophisticated" than the Moroccan Government's Hydrocarbons Office (ONHYM) webpage. He said the geological data and mapping contained on the page are accurate and up-to-date, and contains sophisticated petroleum contracting language. O'Brien said it is clear the SADR has hired professional western consultants to design the site, who he suspects came from an Australian company which was a former competitor to Kerr McGee (KM) in Western Sahara. The address listed on the site for the "SADR Petroleum Authority" is a post office box in New South Wales, Australia.

[1](#)3. (C) The SADR website refers to an "intervening period" before contracts will come into effect, saying "certain conditions relating to sovereignty must be satisfied before the first exploration period can commence." This means any SADR contract will immediately enter into abeyance upon signing until the political situation is resolved. O'Brien believes oil companies may seek to purchase lots from the SADR at a substantial discount, given the political uncertainty involved. He said many smaller companies are risk-taking ventures, and surmised that the SADR would accept highly discounted sums of money given its tenuous hold on the territory.

[1](#)4. (C) Kerr McGee has been operating on a reconnaissance permit for its Western Sahara (WS) block for over three years. Its permit was set to expire on April 29, and O'Brien expected to convert immediately to an exploration permit that would allow the company to drill exploratory wells. Just days before the contract end date, U.S.-based Kerr McGee management instructed O'Brien to extend the recon permit for another six months, to give the company more time to see how the political situation evolves.

[1](#)5. (C) The SADR website declares KM's activities in the WS "illegal," saying "The SADR government will consider all options to deter any such illegal and provocative action." Meanwhile, Kerr McGee believes a legal opinion written by UN Under Secretary General for Legal Affairs Hans Corell in January 2002 declares KM's reconnaissance permit legal, since resource extraction is not involved. O'Brien said the company was eager to convert its recon permit into an exploration permit (the next step before seeking a commercialization license), but decided to extend the reconnaissance permit for an additional six months while they await legal clarification over the territory's status. The Kerr McGee GM wondered aloud to Econoff whether his company had made the right decision in buying its permits from the GOM: "Certainly we have taken a side here with the party we think will win out in the end," he said. "But were we correct? Did we go with Goliath when David may eventually win?"

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